Exhibit A

City of Seattle Combined Sewer Overflow Reduction Program
2010 Department of Ecology Administrative Order
Financial Impacts Summary

10/05/2010

Background

State law and SPU's National Pollutant Discharge Elimination System (NPDES) permit require the utility to submit a new NPDES permit application and a Combined Sewer Overflow (CSO) Reduction Plan Amendment, typically every five years. In May 2010, SPU submitted a CSO NPDES permit application and the 2010 CSO Reduction Plan Amendment to the Department of Ecology. The 2010 Plan Amendment proposed a 2011-2015 implementation plan for reducing the City's CSOs. SPU presented the 2010 Plan Amendment to the City Council last April and the Council approved a resolution authorizing the Director of SPU to submit the 2010 Plan Amendment to Ecology and to negotiate the next five-year NPDES permit with Ecology.
The 2010 Plan Amendment includes a substantial change from the Plan Amendments submitted to Ecology in 2001 and 2005. Both of those Plan Amendments identified 2020 as the completion date for a capital program to reduce the City's CSOs to an average of one untreated overflow per outfall per year. In contrast, the 2010 Plan Amendment identified a program completion date extending to 2025.

In June of 2010, Ecology notified the City it would be willing to approve Seattle's 2010 CSO Reduction Plan Amendment only if the City secured an Administrative Order requiring the City complete its entire CSO Reduction Program by 2025. Ecology indicated NPDES permits are enforceable for a five-year period only. However, Administrative Orders provide regulatory enforcement authority beyond a five-year period. Ecology officials indicated they oppose a program completion date beyond 2025, and an Administrative Order would provide Ecology with the ability to enforce the 2025 completion date.

Financial Impact of Five-Year CSO Reduction Program Extension

The budget estimate for completing SPU's CSO Reduction Program ranges from $182 million to $627 million (*2010 CSO Reduction Plan Amendment, p. 5-18).* For purposes of comparing the financial impact of a 2020 completion date with a 2025 completion date, SPU has conservatively assumed remaining program expenditures will be approximately $492 million.
Implementing the CSO Reduction Program by 2020 requires a number of projects to be executed concurrently between 2015-2020, with a high peak spending rate ($77 million) between 2018-2020. By extending the program completion date to 2025, SPU is able to stagger projects to maintain a more uniform spending rate (with a peak of approximately $47 million). The projected spending path for a 2020 and 2025 completion date is shown in Figure 1 (page 2) and Table 1 (page 4).

Exhibit A

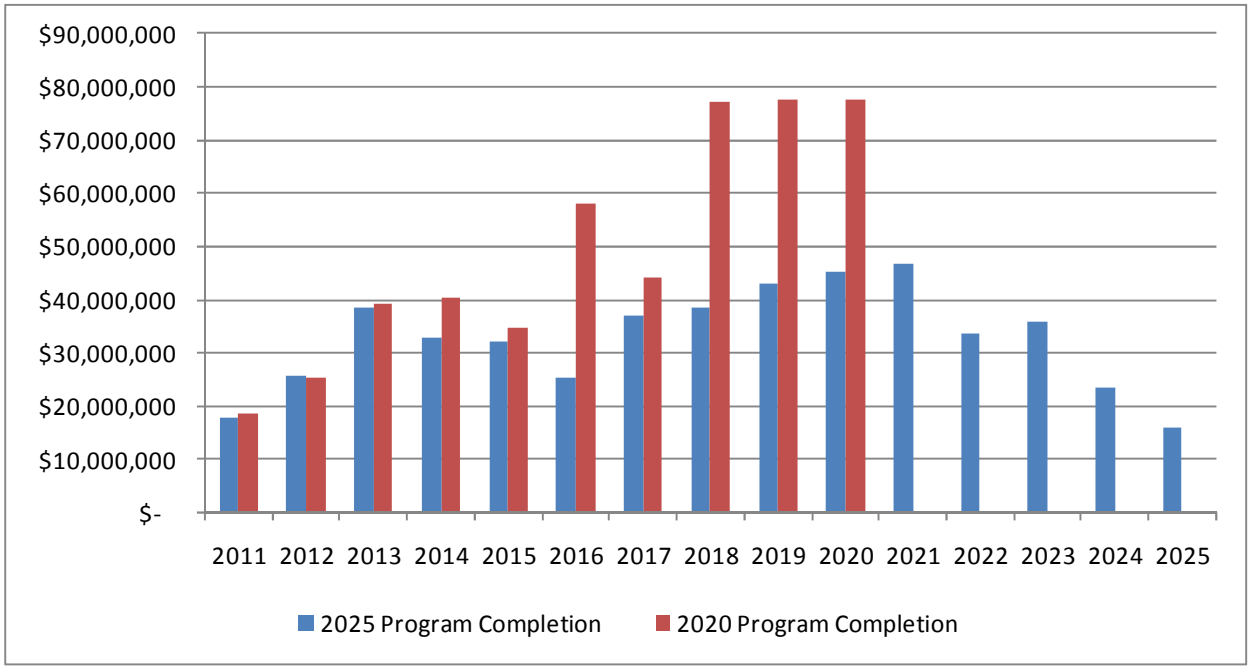

Figure 1. Annual CIP Expenditures for 2020 vs. 2025 Program Completion Date

Rate Impact of Five -Year CSO Reduction Program Extension

Regardless of the program completion date, rate increases will be necessary to fund the CSO capital program. The 2010 typical residential monthly wastewater and drainage bill is $63.87. This analysis compares the projected rate impact of completing the program by 2020 vs. 2025. This analysis is based on the following assumptions:

- The 2010 revenue requirement is the base.
- SPU continues its financial policy to fund capital improvement projects through 25 percent cash and 75 percent debt financing.
- Approximately 55 percent of CSO costs support the drainage system. These costs were previously assigned entirely to wastewater until 2007. SPU's 2008-2009 rate proposal initiated the sharing of CSO costs by allocating 9.2 percent of these costs in 2008 and an additional 18.3 percent in 2009. This analysis assumes a continuation of the CSO cost shift from wastewater to drainage, achieving a 55 percent allocation to drainage in 2014.
- Tax payments are made to both the city and state at the current tax rates.
- No changes to the King County Metro Wastewater Treatment rate*.

*Note: The King County treatment rate represents approximately 67% of the typical monthly wastewater bill. This analysis does not include the 2011 treatment increase adopted by King County.

Executing the entire CSO reduction program by 2020 will require a cumulative rate increase of approximately $11.42 per month for a typical drainage and wastewater customer, as shown in Figure 2. In contrast, extending the completion date of the program to 2025 enables the cumulative rate increase to not exceed approximately $8.02 per month for a typical drainage and wastewater customer.

Exhibit A

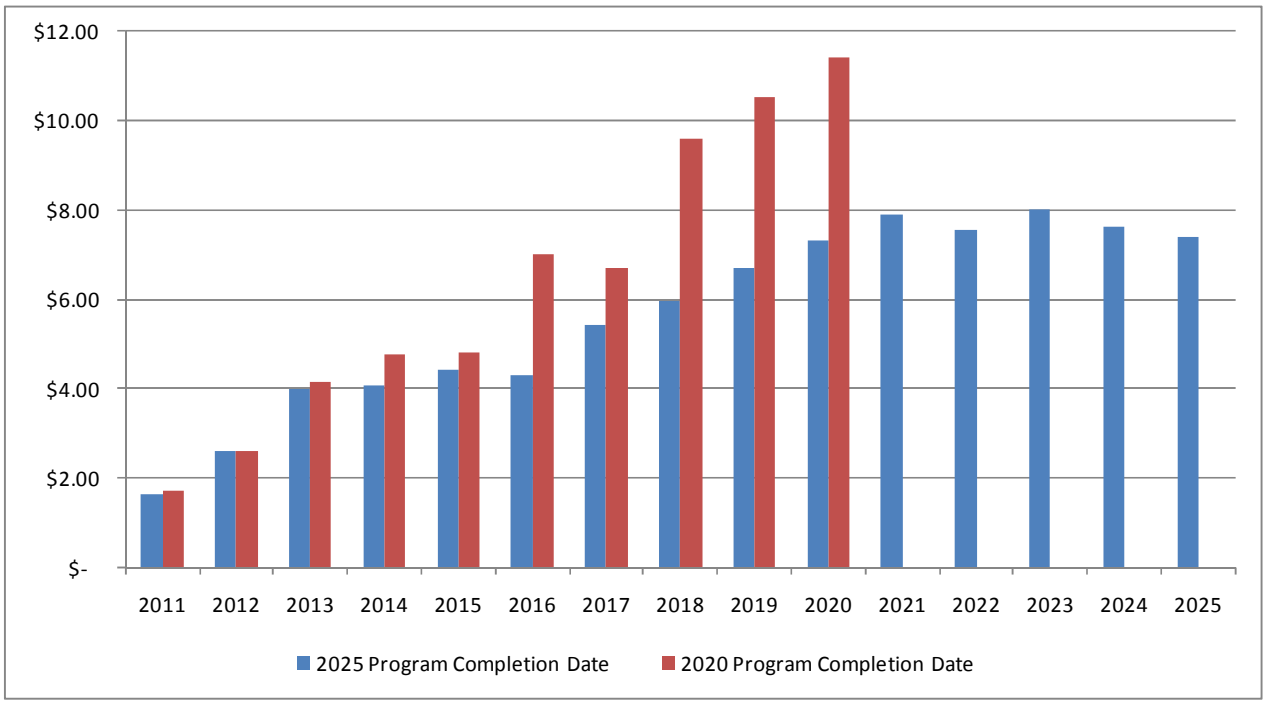

Figure 2. Projected Drainage & Wastewater Typical Monthly Household Bill Increases, 2020 vs. 2025 Program Completion Date

The projected rate increases for a 2020 vs. 2025 program completion date are also presented in Tables 3 and 4 (page 4).

Resource Impacts of Five -Year CSO Reduction Program Extension

To support annual program expenditures of approximately $20 million, SPU has more than 30 SPU employees spending at least part of their time performing program management, project management, flow monitoring, modeling, planning, engineering, and construction management activities. In addition, SPU has a number of consultants performing project-related work. Based on a 2025 program completion date, SPU's annual expenditures would reach a peak expenditure of approximately $45 million. Additional internal and external resources will be required to execute the program during peak spending years. If the program completion date were 2020, SPU's annual expenditures would reach a peak of approximately $77 million. The additional resources required to execute the program would likely be approximately 1.5 to 2 times higher during peak years for a 2020 completion date vs. a 2025 completion date.

Table 1. Annual CIP Expenditures for 2020 vs. 2025 Program Completion Date
(Dollar amounts are in $1000s)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2025 Program Completion	$ 17,807	$ 25,770	$ 38,408	$ 33,017	$ 31,998	$ 25,396	$ 36,871	$ 38,602	$ 42,916	$ 45,318	$ 46,745	$ 33,695	$ 35,977	$ 23,595	$ 16,127
2020 Program Completion	$ 18,430	$ 25,234	$ 39,409	$ 40,546	$ 34,707	$ 57,856	$ 43,988	$ 77,084	$ 77,494	$ 77,494	$ -	$ -	$ -	$ -	$ -

Table 2. Rate Projection for 2020 Program Completion

	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Cumulative Rate Increase	$1.72	$2.59	$4.14	$4.76	$4.82	$7.03	$6.70	$9.61	$10.52	$11.42
Drainage Rate	$0.52	$0.98	$1.85	$2.44	$2.47	$3.64	$3.47	$4.94	$5.41	$5.87
Wastewater Rate	$1.20	$1.62	$2.29	$2.32	$2.35	$3.39	$3.23	$4.67	$5.12	$5.55

Table 3. Rate Projection for 2025 Program Completion

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Cumulative Rate Increase	$1.66	$2.61	$4.01	$4.07	$4.41	$4.30	$5.43	$5.96	$6.69	$7.31	$7.88	$7.53	$8.02	$7.63	$7.41
Drainage Rate	$0.50	$0.97	$1.77	$2.04	$2.22	$2.16	$2.74	$2.99	$3.35	$3.66	$3.94	$3.77	$4.01	$3.82	$3.71
Wastewater Rate	$1.16	$1.64	$2.24	$2.03	$2.19	$2.14	$2.69	$2.96	$3.33	$3.65	$3.94	$3.76	$4.01	$3.81	$3.70